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TAGS: [EFIN](#) [PREL](#) [KNNP](#) [ETTC](#) [PARM](#) [FR](#)
SUBJECT: FRENCH CONFERENCE ON WMD PROLIFERATION FINANCING

REF: PARIS 4441

Classified By: Econ M/C Thomas J. White, Reasons 1.4 b and d

11. (C/REL France, UK, Germany, Italy) SUMMARY: At a cordial, exploratory conference hosted by France on June 20, French, German, Italian, UK, and US participants committed to work together to implement the G8 Gleanegles Statement to identify, track and freeze WMD proliferation-related assets and transactions and flesh out how they could undertake a multinational effort to develop financial measures to combat WMD proliferation. Participants exchanged information on their countries, respective national laws and programs related to WMD proliferation financing, and discussed the possibility of developing financial measures at the EU level. They agreed on a work plan and to hold another high-level meeting in mid-to-late September or early October to further the effort and take stock of each state,s internal review of the work plan. END SUMMARY.

12. (SBU) Participants:
FRANCE

Foreign Affairs:

Stanislas LEFEVBRE de LABOULAYE, Director General for
Political Affairs and Security
Philippe Carre, Director for Strategic Affairs, Security and
Disarmament
Paul DAHAN, Deputy Director for Strategic Affairs, Security
and Disarmament
Pierre Thenard, Office Director for Security
Patrick ALLARD, Policy Planning,
David Bertolotti, Desk Officer, Nuclear Non-Proliferation
Gurvan Lebras, Desk Officer, Legal Affairs
Jacques Maillard, Deputy Director of Economic Affairs
Othman EL KACHTOUL, Desk Officer, Economic Affairs
Economic Ministry
Regis PELISSIER, Head of Bureau for Intl Monetary & Financial
Systems

USA

Robert JOSEPH, U/S for Arms Control and Intl Security
Stuart LEVEY, U/S for Terrorism and Financial Intelligence
Patricia McNerney, Senior Advisor
Otto VAN MAERSSSEN, EconOff, U.S. Embassy
Christine Clark, Senior Advisor
Jennifer Fowler, Program Advisor
Molly Millerwise, Director of Public Affairs

UNITED KINGDOM

David RICHMOND, Director General Defense and Intelligence,
Foreign and Commonwealth Office
Hamish COWELL, British Embassy

ITALY

Cristina COLLURA, Director for Terrorist Financing, Treasury
Department
Filippo FORMICA, Director for Disarmament and
Non-Proliferation, MFA

GERMANY

Dr. Ursina KRUMTHOLZ, Deputy Director for International
Economic Law, Ministry of Economics and Technology
Joachim HACKER, Econ Counselor, German Embassy

¶3. (C/REL France, UK, Germany, Italy) France on June 20 in Paris hosted a high-level multilateral meeting to discuss the development of financial measures to disrupt WMD proliferation. The agenda included a presentation by each participating country detailing its national authorities and programs applicable to WMD proliferation financing, as well as discussion of strategies for multilateral efforts to address the issue. Carre suggested that future meetings might include the European Commission, Japan, and possibly other G-8 members.

USA

¶4. (S/REL France, UK, Germany, Italy) U/S Joseph began the US presentation by recognizing French leadership in bringing the states together to consider how best to create new tools to counter the proliferation threat, and explained that targeting those who support proliferation activities, including financiers, regardless of associated country, is central to the US strategy to combat WMD proliferation. U/S Levey made a detailed presentation regarding the USG's thinking on the importance of using financial measures to disrupt proliferation activities, offering that proliferation support networks are more susceptible to financial deterrence and exposure than terrorist support networks because they are often motivated by profit and rely heavily on the formal financial sector. Levey provided an overview of U.S. Executive Order 13382, which targets WMD proliferators and their supporters, explaining the U.S. effects of designation pursuant to the order, the process the USG follows to identify and designate E.O. 13382 targets, and the global impact of these designations. As part of his presentation, he provided a detailed case study of the designation of a Swiss company and individual, highlighting that E.O. 13382 allowed the USG to take action against these North Korea-related proliferators in a way that traditional export controls or other measures could not. Levey provided participants with the list of persons and entities designated under the U.S. Executive Order 13382 and a list of known Iranian front companies for WMD and missile programs.

UNITED KINGDOM

¶5. (C/REL France, UK, Germany, Italy) Richmond said the UK thinks WMD financing controls could be useful, but the UK is still examining the legal and technical issues that such authorities would raise. He noted that some of the difficulties in the UK review stem from London's position as a global financial center, which requires broad coordination across many interested parties in the government. He indicated that a Chapter VII UNSCR resolution could facilitate the UK's development of financial measures to address WMD proliferation, and also suggested that there may be an EU dimension that should be further explored. Richmond suggested it would be beneficial for government and industry to work together on the issue of proliferation finance. He expressed concern about placing too high of a regulatory burden on industry. He also emphasized that the UK's intelligence on, and knowledge of, proliferation financing is lacking. He proposed that an effort by participating countries to pool resources to study the issue of proliferation finance, particularly in the development of

targets, would be useful. Richmond ended by noting that the UK does support in principle the development of financial authorities to combat proliferation, but cautioned that there is still much work to do.

ITALY

16. (C/REL France, UK, Germany, Italy) Formica emphasized that the Italian government is committed to fighting proliferation and believes it is important to strengthen cooperation on proliferation finance. He noted Italy's support of UNSCR 1540 and the G8 Gleneagles Statement on Nonproliferation. He further stated that the relevant Italian legislation is complex, explaining that Italy does not have a national administrative mechanism similar to E.O. 13382 to issue freeze orders, but that Italian judges may issue freeze orders in the context of judicial proceedings, or as part of pretrial action in criminal proceedings. Formica proposed that any initiative that the group undertakes should involve the EU because national financial authorities in this area could be in conflict with the Treaty of Rome.

GERMANY

17. (S/REL France, UK, Germany, Italy) Dr. Krumptholz highlighted Germany's interest in developing appropriate financial tools to address proliferation, but stressed the need to clarify a number of matters, including the possible procedure for designations and the technical difficulties of sanctions implementation. He said that Germany has concerns about the effectiveness of any potential measures if non-EU countries, particularly in Asia, do not participate. He noted that, in the specific case of Iran, Germany knows that Asian companies are ready to step in to replace European companies to furnish goods needed for WMD. In addition, Krumptholz emphasized Germany's concern that any process for designated WMD proliferation-related entities should be as

transparent possible, noting challenges in the terrorist financing designation process, such as legal challenges before the European Court of Justice and recent initiatives to clarify delisting procedures. Germany has made the policy choice to handle WMD proliferation activities as penal offenses, as opposed to the administrative approach of the U.S. Executive Order, by informing companies in advance that export permits will not be approved and then establishing criminal intent if the export proceeds.

FRANCE

18. (C/REL France, UK, Germany, Italy) Laboulaye highlighted the importance of this issue for France and its readiness to explore with key governments how we might add financial measures to our broader effort to combat proliferation. He emphasized, however, that this was an exploratory meeting and should be handled quietly at this stage by each of the governments. Carre briefed on French authorities and indicated that France does not have a legal authority similar to the US Executive Order. He noted that the EU framework limits the national-level actions that can be taken in this regard. Pelissier added that the Economic Ministry had done some research into whether existing money-laundering or terrorist financing tools might be applicable, but echoed Carre that the question is one of scope. He said that France needs to better understand what problem we are trying to deal with (what is the objective of the authorities?), how proliferators operate financially, how their financial operations can be targeted through measures that would freeze assets, and whether such measures could be undertaken by the EU.

OPEN DISCUSSION

19. (C/REL France, UK, Germany, Italy) Responding to some of the questions raised regarding how proliferators conduct financial activities, the USDEL noted that the USG believes proliferators are using the formal financial system, and

while the USG is committed to open financial flows, the system needs to be protected from illicit conduct. USDEL agreed with participants, emphasis on the need to protect due process in any financial authorities that are created to address WMD proliferation. Summarizing the comments of the other participants regarding their national authorities, Levey suggested that if national authorities are insufficient, the question is then what multilateral mechanism should be created and the obvious choices are at the UN or EU level. Joseph emphasized that the USG favors as inclusive an approach as possible to prevent proliferators from devising strategies to circumvent the authorities. Joseph reiterated that countries have an obligation under UNSCR 1540) a Chapter VII Resolution) to develop appropriate authorities to combat proliferation finance. In discussions in Warsaw on the Proliferation Security Initiative (PSI), the US also would be pressing for PSI states to add financial tools to their national and international legal authorities to combat proliferation.

¶10. (C/REL France, UK, Germany, Italy) Carre asked USDEL to clarify what it is requesting the participating countries to do: to adopt a list of entities that would be targeted for financial measures, or to be more vigilant on the issue of WMD proliferation as a whole. Levey emphasized that the US has no monopoly on knowledge and is not seeking the participating countries to simply adopt a U.S. list of entities; instead, the US is seeking a collective effort to identify, track, and impose financial measures on WMD proliferators and their support networks. Levey explained that this effort is particularly important with respect to assisting the financial sector because the financial sector is not currently set up to be able to recognize proliferation-related activity in the same way it can money laundering or narcotics-trafficking. Without government guidance on what proliferators should not be dealt with, it is nearly impossible for financial institutions to distinguish between legitimate commercial and proliferation-related dealings. In response, Krumptholz insisted that it is already warning its companies of possible dealings with proliferators, many of whom are on the U.S. Executive Order annex list. Pelissier pointed out that sanctions lists have shortcomings because they are public, and could be circumvented by proliferators. As a result, he said, it was essential to consult with the intelligence community on decisions to designate.

¶11. On the question of scope, Levey noted that to date, the USG has made designations in relation to three countries: Syria, North Korea, and Iran. Joseph made clear that the issue is not just WMD, but also delivery systems including ballistic missiles. In practice, the US has targeted specific countries, so Joseph inquired whether France thinks we should look at the question differently. Carre remarked that the country-specific approach is technically easier but legally harder than a transaction-based approach. Germany noted that for dual-use goods, for the relevant EU directive, the transaction-based approach becomes the basis to require an export license. Carre observed that the German penal approach casts a wide net, but Levey argued that export control regimes are not wide enough. Richmond, speaking for the UK, worried that the US approach would take the international community beyond just dealing with companies. Collura circulated an EU Directive published under the Italian Presidency in 2003, dealing with recognizing asset freezes of other member states, which extends to trafficking in munitions or nuclear materials, and also contemplates a penal framework (EU 2003/577/JHA of 22 July 2003). She urged a broad approach, and suggested perhaps the Financial Action Task Force (FATF) could issue another recommendation based on new typologies, but the point is that countries need to find the right international forum. Finally, with respect to the intelligence issue, Levey stated that there is always a trade-off between public designation and continued intelligence gathering, noting that a multilateral discussion about the designation of certain entities could help guide that decision-making.

NEXT STEPS

12. (C/REL France, UK, Germany, Italy) Carre concluded that there is merit, even urgency, in looking at how to ensure our activities do not contribute to proliferation. States need to look at ways to improve the system, he said, and noted that the U.S. correctly identified proliferation finance as an area where more can be done. However, he said, it is still too early to decide if countries can and will undertake such new measures. He suggested that the participating states agree to hold another meeting between September 15 and the first week of October. Joseph suggested perhaps a technical level meeting in late July might be useful to get answers to some of these questions. France agreed to consider the idea, keeping open the modalities of such a meeting. Carre then outlined areas to prepare for discussion at the next meeting, including: what kind of information sharing to implement as experts need to understand the problem, its form, manifestations, and scope; what possibilities exist to better inform the financial system of risks and to ensure an appropriate level of awareness; what legal requirements are advisable, and for the EU what actions are possible at the national and EU level; what multilateral framework exists for ensuring efficiency and vigilance to ensure a level playing field. All agreed this was a useful summary and way forward. Discussion concluded with debate over whether other countries should be included in subsequent discussions (e.g., Japan or other G8 members), but participants did not reach agreement on this point.

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